

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 ARA-10 OES-07 DLOS-09 EA-10 DOE-15
SOE-02 L-03 DODE-00 PA-01 INT-05 AGRE-00 H-01
DOTE-00 /167 W

-----043356 081650Z /46

R 081435Z MAY 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 5630
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY MADRID
AMCONSUL OPORTO
AMCONSUL PONTA DELGADA
AMEMBASSY PARIS

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BRUSSELS FOR EEC

GENEVA FOR MTN

PARIS ALSO FOR OECD

E.O. 11652: N/A
TAGS: ECON EFIN PO EFIS
SUBJECT: ECONOMIC DEVELOPMENTS

BEGIN SUMMARY: PRESIDENT EANES BOOSTED INDIVIDUAL INITIA-
TIVE AND FREE ENTERPRISE IN APRIL 25 REMARKS. GOP AND IMF
HAVE REACHED AGREEMENT, GOVERNMENT RELEASED JAN-FEB 1978 BUDGET
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FIGURES. NEW PLANNING COUNCIL IN PLACE. COUNCIL OF MINISTERS
ANNOUNCED END OF ANOTHER STATE INTERVENTION. PORTUGUESE
EXPORTS TO CUBA HAVE INCREASED SUBSTANTIALY. GOP AND JAPAN
SIGNED FISHING AGREEMENT. AUSTERITY DERAILS METRO EXPANSION.
END SUMMARY.

1. EANES EXHORTS PORTUGUESE: STATING THAT THE NATIONAL CRISIS

WOULD BE OVERCOME ONLY BY A TOTAL MOBILIZATION OF HUMAN AND MATERIAL RESOURCES AND REMENDOUS SACRIFICE BY ALL PORTUGUESE, PRESIDENT EANES, IN APRIL 25 SPEECH, CALLED FOR:

- REFORM IN PUBLIC ADMINISTRATION;
- FURTHER RETREAT BY THE STATE FROM DIRECT INTERVENTION IN WHAT WERE PREVIOUSLY PRIVATE AREAS OF RESPONSIBILITY AND ACTIVITY;
- A NEW DEFINITION OF THE BALANCE BETWEEN THE PUBLIC AND PRIVATE SECTORS SO THAT PROPER CONDITIONS FOR CREATIVITY, INNOVATION AND INVESTMENT WILL BE ESTABLISHED.

IN A PHILOSOPHICAL VEIN, EANES URGED AN END TO THE ATMOSPHERE OF THE LAST FOUR YEARS IN WHICH INCOMPETENCE AND NEGLIGENCE HAVE RECEIVED TREATMENT EQUAL TO THAT GIVEN ABILITY AND ZEAL, OR AS EANES STATED SIMPLY: "THE BEST AND THE WORST ARE REWARDED EQUALLY."

2. GOP AND IMF REACH AGREEMENT: IMF NEGOTIATING TEAM LEFT LISBON ON SATURDAY, APRIL 26 AFTER CONCLUDING AGREEMENT WITH GOP. GOP COUNCIL OF MINISTERS REVIEWED ACCORD MAY 4 AND APPARENTLY DECIDED TO SEND LETTER OF INTENT TO WASHINGTON. GOP HAS GIVEN IMPRESSION THAT ITS NEGOTIATORS WERE ABLE TO WREST IMPORTANT CONCESSIONS FROM IMF. AS EXAMPLES, PRESS REPORTED THAT ESCUDO DEVALUATION WOULD BE INITIALLY BETWEEN 5 AND 10 PERCENT, CONTRASTING WITH IMF DEMAND FOR DISCRETE DEVALUATION OF 20 PERCENT, AND RISE IN INTEREST RATES WILL NOT BE AS SHARP AS IMF ORIGINALLY SOUGHT.

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3.. GOP'S 1978 BUDGET PERFORMANCE: GOP HAD TOTAL RECEIPTS OF 18.39 BILLION ESCUDOS FOR FIRST TWO MONTHS OF 1978. AMOUNT REPRESENTS 11.6 PERCENT OF TOTAL RECEIPTS OF 159 BILLION PROJECTED FOR 1978 (LISBON 2932). BY CONTRAST IN FIRST 2 MONTHS OF 1977, GOP COLLECTED 14.4 PERCENT OF THAT YEAR'S TOTAL RECEIPTS. TOTAL GOP OUTLAYS FOR FIRST 2 MONTHS IN 1978 REACHED 13.49 BILLION ESCUDOS, OR 6.1 PERCENT OF PROJECTED TOTAL 1978 OUTLAYS OF 219.6 BILLION ESCUDOS. JAN-FEB 1977 OUTLAYS, ON THE OTHER HAND, WERE 8 PERCENT OF TOTAL 1977 OUTLAYS. LAG IN 1978 OUTLAYS AS COMPARED TO 1977 RESULTS FROM DELAY IN ADOPTING 1978 BUDGET. SIMILARLY, LACK OF NECESSARY LEGISLATION IN FIRST FEW MONTHS OF 1978 PREVENTED TAX AND OTHER COLLECTIONS AT HIGHER RATES APPROVED IN 1978 BUDGET. ALTHOUGH SOME CURRENT REVENUES WERE IRRETRIEVABLY LOST BY THE DELAY IN APPROVING THE BUDGET, GOP WILL RECOVER MOST OF THE LOSS LATER THIS YEAR.

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4. NATIONAL PLANNING COUNCIL INAUGURATED: MEMBERS OF
NATIONAL PLANNING COUNCIL, AN INDEPENDENT ADVISORY BODY,
TOOK OFFICE APRIL 28 AT SESSION OFFICIATED BY PRSIDENT EANES.
MEMBERS OF COUNCIL ARE: SALGADO ZENHA, PRESIDENT; ALFREDO DO
SOUSA, PEDRO DE VASCONCELOS, AND CARLOS CARVALHAS, VICE PRESIDENTS;
TERESA AMBROSIO, HERLANDER ESTRELA, ALFREDO BRITO DA COSTA, AND
ANTONIO GUTERRES, GOP REPRESENTATIVES; JOSE MARIA DA
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SILVA AND JORGE ACCIAIOULI DE FREITAS, MADEIRA REPS; AND
JOSE MENDONCA CORREIA DA CUNHA AND ALVARINO DE MENESES
PINHEIRO, AZORES REPS. PRIVATE SECTOR ORGANIZATIONS SLATED

FOR COUNCIL REPRESENTATION (CIP, CAP, CCP, AIP) BOYCOTTED SESSION IN DISPUTE OVER ALLOCATION OF SEATS. IN BRIEF ADDRESS, EANES UNDERLINED PLAN'S FUTURE VALUE AS INDICATIVE TOOL FOR PRIVATE SECTOR, WHICH HE DESCRIBED AS HAVING PREDOMINANT ROLE IN PORTUGUESE ECONOMIC MODEL AND ON WHICH ECONOMIC RECOVERY DEPENDS. PLANNING COUNCIL'S EFFECTIVENESS WILL LIKELY BE CIRCUMSCRIBED BY INADEQUATE PLANNING INFRASTRUCTURE AT ALL LEVELS - NATIONAL, REGIONAL AND SECTORAL.

5. GOP ENDS ANOTHER INTERVENTION: THE CABINET DECIDED MAY 4 TO TERMINATE STATE INTERVENTIONS IN GRAO-PARA, A TOURISM COMPANY SIMILAR TO THE TORRALTA GROUP, IN WHICH GOVERNMENT ENDED INTERVENTION LAST MONTH. GOP WILL PROVIDE SPECIAL CREDIT FACILITIES AND JOB PROTECTION DURING COMPANY'S FINANCIAL RECOVERY PERIOD. AT THE SAME TIME, THE CABINET DECLARED A NUMBER OF MAJOR CONSTRUCTION FIRMS TO BE IN ECONOMIC DIFFICULTY. IT WILL SOON

DESIGNATE GOVERNMENT ADMINISTRATORS AND ALLOCATE FINANCIAL SUPPORT FOR THEM.

6. PORTUGUESE-CUBAN TRADE: DURING FIRST FOUR MONTHS OF 1978, PORTUGAL SIGNED EXPORT CONTRACTS WITH CUBA AMOUNTING TO U.S. \$922 THOUSAND, I.E., MORE THAN TOTAL PORTUGUESE EXPORTS OF U.S. \$798 THOUSAND TO CUBA IN 1977. EXPORTS CONSIST OF CORK SHEETS, FILES, SPARE PARTS FOR STOVES, AND NYLON CASTING LINES FOR SHIPS. ACCORDING TO PRESS REPORTS, CUBA WILL FURNISH, THROUGH 1981, MINIMUM OF 70 THOUSAND TONS OF SUGAR VALUED AT U.S. \$10 MILLION. IN TURN, CUBA WILL IMPORT ANNUALLY PORTUGUESE PRODUCTS LIMITED OFFICIAL USE

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WORTH U.S. \$3 MILLION, AND WILL HAVE 3 OF ITS SHIPS REPAIRED ANNUALLY IN PORTUGUESE SHIPYARDS. EMBASSY UNDERSTANDS THAT INCREASE IN CUBAN PURCHASES RESULTS DIRECTLY FROM SECRETARY OF STATE CARLOS FILIPE'S TRADE MISSION TO HAVANA EARLIER THIS YEAR. GOP MISSION REPORTEDLY TOOK HARD-LINE AND THREATENED TO PURCHASE SUGAR FROM OTHER SOURCES, E.G., BRAZIL, IF CUBANS REFUSED TO INCREASE THEIR IMPORTS FROM PORTUGAL.

7. FISHING AGREEMENT: ON APRIL 18 PORTUGAL AND JAPAN SIGNED FIRST OF A KIND FISHING AGREEMENT THAT WILL PERMIT JAPANESE TUNA FISHING WITHIN PORTUGAL'S 200 MILE EXCLUSIVE ECONOMIC ZONE. PORTUGAL IS LIKELY TO SIGN SIMILAR AGREEMENTS SOON WITH SPAIN, FRANCE AND THE SOVIET UNION.

8. AUSTERITY HALTS METRO EXPANSION: SECRETARY OF STATE FOR TRANSPORTATION CONSIGLIERI PEDROSO SAID MAY 4 THAT

THE NEED FOR AUSTERITY DOES NOT PERMIT FURTHER EXPANSION
OF LISBON SUBWAY SYSTEM AT PRESENT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, GOVERNMENT BUDGET, EXPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 08 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LISBON03390
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780197-0799
Format: TEL
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780583/aaaacsyv.tel
Line Count: 227
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 01e3b4a2-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2763610
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS BEGIN SUMMARY: PRESIDENT EANES BOOSTED INDIVIDUAL INITIA- TIVE AND FREE ENTERPRISE IN APRIL 25 REMARKS. GO
TAGS: ECON, EFIN, EFIS, PO
To: STATE
Type: TE
vdkgvkey: odbcs://SAS/SAS.dbo.SAS_Docs/01e3b4a2-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014